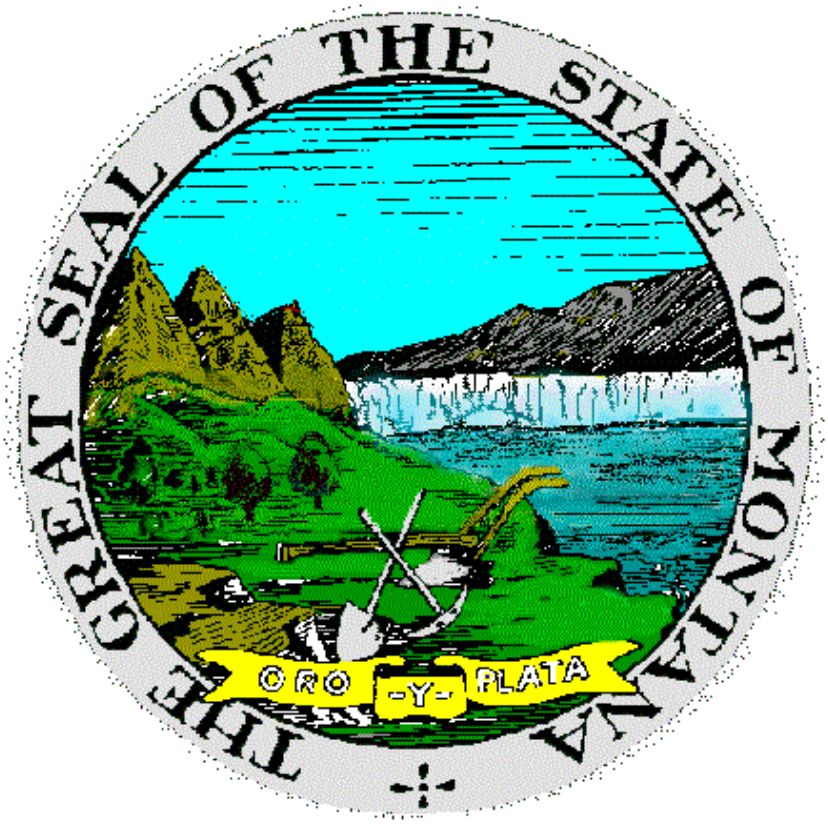


MONTANA DEPARTMENT OF PUBLIC HEALTH AND HUMAN SERVICES

JOHN CHAPPUIS, STATE MEDICAID DIRECTOR

SECTION 1115 WAIVER APPLICATION FOR HEALTH CARE REFORM

October 23, 2003

MONTANA

A. EXECUTIVE SUMMARY

The State of Montana, Department of Public Health and Human Services (Department) is pleased to submit this request for an 1115 waiver of amount, duration and scope of services, Section 1902(a)(10)(B) of the Social Security Act, to provide a limited Medicaid benefit package of optional services for those adults age 21 to 64 who are not pregnant or disabled. The waiver population is those adults who are eligible for Medicaid under Sections 1925 or 1931 of the Social Security Act. The requested waiver is a type of health care reform; it resembles a basic health plan benefit. Optional services excluded under the waiver (to the defined eligibility group) will be preserved for elderly, disabled or pregnant Medicaid beneficiaries.

Background Information: In 1996 under the authority of an 1115 welfare reform waiver referred to as Families Achieving Independence in Montana (FAIM), Montana implemented a limited Medicaid benefit package of optional services to the same group of adults eligible for Medicaid under Sections 1925 or 1931 of the Social Security Act. The limited Medicaid benefit package was referred to as "Basic Medicaid". The FAIM welfare reform waiver expires on January 31, 2004 (confirmed by correspondence dated October 7, 2003 from Mr. Mike Fiore, Director, Family and Children's Health Program Group, Center for Medicaid and State Operations, Centers for Medicare and Medicaid Services). The requested 1115 demonstration waiver is a replica of the welfare reform waiver in the area of limited optional services under Medicaid. It is imperative to our state and our Medicaid budget that an effective date of February 1, 2004 is achieved.

Services Excluded: The medical services generally excluded under "Basic Medicaid" are: audiology, dental and denturist, durable medical equipment, eyeglasses, optometry and ophthalmology for routine eye exams, personal care services and hearing aids. Under the FAIM waiver, these services were excluded to align with the basic medical coverage of a work-related insurance program. That is, an employed individual who is insured under a work-related insurance policy would not have coverage for the list of excluded services.

Allowances/Special Circumstances: The Department recognizes there may be situations where the excluded services are necessary as in an emergency or essential for employment. Allowances have been made for Medicaid coverage for emergency dental situations, medical conditions of the eye and certain medical supplies such as diabetic supplies and oxygen. Concurrently, if an individual in the 1115 waiver requires one of the excluded services in order to obtain employment, for example eyeglasses, Medicaid may cover the service. In 1996, the Department developed a list of standards and criteria in determining Medicaid coverage for the excluded services. We will continue using the same list of standards and criteria as the providers and the consumers are familiar with it.

B. PUBLIC NOTICE

Montana is cognizant of the need to include public comment in the 1115 waiver process, albeit the new 1115 will be identical to the FAIM waiver with regard to the Medicaid piece. In accordance with the SDML #01-024, all Federally-recognized Tribal Governments maintaining a primary office and/or major population within Montana were notified in writing at least 60 days before the submission of the Concept Paper. On May 9, 2002, Tribal Officials were notified in writing of our intent to submit a request for an 1115 waiver. On May 30, 2002, a telephone conference call was held allowing the Tribal Officials an opportunity to discuss components of the concept of an 1115 waiver. On June 28, 2002, the Department Director and members of her staff met with Tribal Officials to discuss the potential 1115 waiver. The Revised Concept Paper was shared with the Tribal Officials on May 15, 2003 whereby a 30-day comment period was allowed prior to our submission to the Centers for Medicare and Medicaid Services (CMS). There were no comments received by the Department from Tribal Officials. The Revised Concept Paper was submitted to CMS on June 30, 2003. Additionally, the Native American Advisory Council to the Department is continually updated quarterly as to the status of the new 1115 waiver as well as other Medicaid issues.

In the fall of 2002, we met with the independent living center council members to discuss the Concept Paper. The Concept Paper was posted on the Department's web page and once this formal 1115 waiver proposal is finalized, it will also be posted on the Department's web page. The Department will publish information regarding the waiver in the newspapers of general circulation (cities of Great Falls, Helena, Billings, Missoula, Bozeman, Havre, and Kalispell). All interested parties will be provided an opportunity to comment. The Administrative Rules of Montana will be filed to reflect the new 1115 waiver and the public process allows for a hearing and a comment phase. The Department will meet with interested parties, including but not limited to the beneficiaries, provider community and advocacy organizations.

C. THE ENVIRONMENT

The 1115 waiver request is a replacement waiver for the approved 1996 welfare reform waiver due to expire on January 31, 2004. The necessary programming edits are in place in the eligibility and claims payment systems. The provider community and the individuals who will be affected by the 1115 waiver are accustomed to the provisions of the waiver.

1. Overview of Current System

The 1115 waiver is not a managed care waiver; services are paid on a fee-for-service basis to enrolled Medicaid providers. The General Information for Providers manual for Medicaid providers defines the services that are excluded under "Basic" Medicaid. The eligibility specialists in the local offices of public assistance have guidelines regarding the request process for services necessary for employment or for emergency situations. The 1115 will be a seamless process and an exact replica of the limitations currently in place in the FAIM waiver with respect to Medicaid.

2. Experience with State Waivers:

The welfare reform waiver expires on January 31, 2004. It has been cost effective and will remain cost effective under the new 1115 waiver to continue with a reduced package of Medicaid optional services to individuals who are Medicaid eligible under Sections 1925 and 1931 of the Social Security Act and who are not disabled or pregnant and are over the age of 21 and under the age of 65.

Under the authority of a 1915(b) waiver, Montana operates a Primary Care Case Management program called the PASSPORT to Health Program. The Sections of the Social Security Act that have been waived include:

1902(a)(1) – State-wideness: This is waived due to two counties out of 56 counties having physicians or mid-level practitioners who are unwilling to serve as the primary case managers. When the 1915(b) waiver is renewed, the state will not request the waiver of state-wideness in the event there are physicians or mid-level practitioners willing to serve as primary care case managers.

1902(a)(10)(B) – Comparability of Services: Individuals who are included in the 1915(b) waiver receive primary care case management services from their physicians or mid-level practitioners.

1902(a)(23) – Freedom of Choice: Individuals who are enrolled with a primary care case manager received specialized services from the physicians arranged by the primary care case managers.

Montana also has Home and Community Based Waivers for individuals who are elderly or disabled or developmentally disabled where the individuals are able to receive services in the community. The home and community based waivers will not be impacted by the individuals who are Medicaid eligible under Sections 1925 and 1931 of the Social Security Act and under the authority of the new 1115 waiver.

3. Regarding state legislation, the following information is directly from Montana Codes Annotated: "53-6-101, (5) In accordance with federal law or waivers of federal law that are granted by the secretary of the U.S. department of health and human services, the department of public health and human services may implement limited medicaid benefits, to be known as basic medicaid, for adult recipients who are eligible because they are receiving financial assistance, as defined in 53-4-201, as the specified caretaker relative of a dependent child under the FAIM project and for all adult recipients of medical assistance only who are covered under a group related to a program providing financial assistance, as defined in 53-4-201. Basic medicaid benefits consist of all mandatory services listed in subsections (2)(a) through (2)(l) but may include those optional services listed in subsections (3)(a) through (3)(q) that the department in its discretion specifies by rule. The department, in exercising its discretion, may consider the amount of funds appropriated by the legislature, whether approval has been received as provided in 53-1-612, and whether the provision of a particular service is commonly covered by private health insurance plans. However, a recipient who is pregnant, meets the criteria for disability

provided in Title II of the Social Security Act, 42 U.S.C. 416, et seq., or is less than 21 years of age is entitled to full medicaid coverage".

4. Input from Public Agencies/Advocates

Montana has met with Tribal Officials, the Native American Advisory Council and the Montana Independent Living Project Council. There is acknowledgement that the 1115 waiver is a continuation of the FAIM waiver regarding the reduced package of optional services reimbursed by Medicaid. Montana will continue its efforts in providing public forums and information to advocacy groups and the public. Our efforts are outlined in B. PUBLIC NOTICE. This section also discusses the degree of involvement the State has had with the Tribal Officials.

5. State Budget

The budget for the Montana Medicaid program cannot sustain the additional expenditures it will face if the 1115 waiver is not approved by CMS. The Department will be forced to eliminate coverage for defined optional programs in order to stay within the appropriations from the state legislature. This elimination of coverage for defined optional programs will affect the elderly, disabled and pregnant beneficiaries, who have the greatest need of optional services. We are further concerned the elimination of coverage for defined optional programs will cause an increase in expenditures for institutional care, albeit nursing home placement or outpatient hospital services.

D. PROGRAM ADMINISTRATION

The Montana Department of Public Health and Human Services (Department) is the single state agency responsible for the administration of the Medicaid program. Gail Gray is the Director for the Department and John Chappuis is the Deputy Director and serves as the Medicaid Director. Within the Department there are several divisions, which include:

Addictive and Mental Disorders:	Dan Anderson, Administrator
Disability Services:	Joe Mathews, Administrator
Child Support Enforcement:	Lonnie Olson, Administrator
Human And Community Services:	Hank Hudson, Administrator
Child and Family Services:	Shirley K. Brown, Administrator
Senior and Long Term Care:	Kelly Williams, Administrator
Child and Adult Health Resources:	John Chappuis, Acting Administrator
Quality Assurance:	Mary Dalton, Administrator
Office of Program Finance:	Chuck Hunter, Administrator
Public Health and Safety:	Maggie Bullock, Administrator
Fiscal Services:	Mick Robinson, Administrator
Operations and Technology:	Mike Billings, Administrator

There will be no contractual relationships involved in the 1115 waiver. The eligibility specialists in the county offices are aware of the reduced Medicaid benefits that were a part of the FAIM waiver. The Department will provide documentation to the eligibility specialists once the 1115

waiver is approved. It is our intention to have no gap in the time the FAIM waiver expires and the new 1115 waiver becomes effective. All the systems are appropriately programmed to continue with the 'Basic' Medicaid coverage.

E. DATA

1. Count of unduplicated beneficiaries - State Fiscal Year '03 (July 1, 2002 through June 30, 2003)

ADULTS excludes institutionalized:

11,172	TANF BENEFICIARIES
15,610	FAMILY MEDICAID – SECTION 1931
3,883	POVERTY PREGNANT WOMAN
2,211	SSI – AGED
2,961	AGED
12,681	SSI – BLIND/DISABLED
6	BLIND
4,036	DISABLED
1,111	HCBS (651 aged, 275 disabled, 185 other)
6,371	TRANSITIONAL MEDICAID
37	MEDICAID-EXTENDED CHILD/SPOUSAL SUPPORT
12,588	QMB
2,894	SLMB

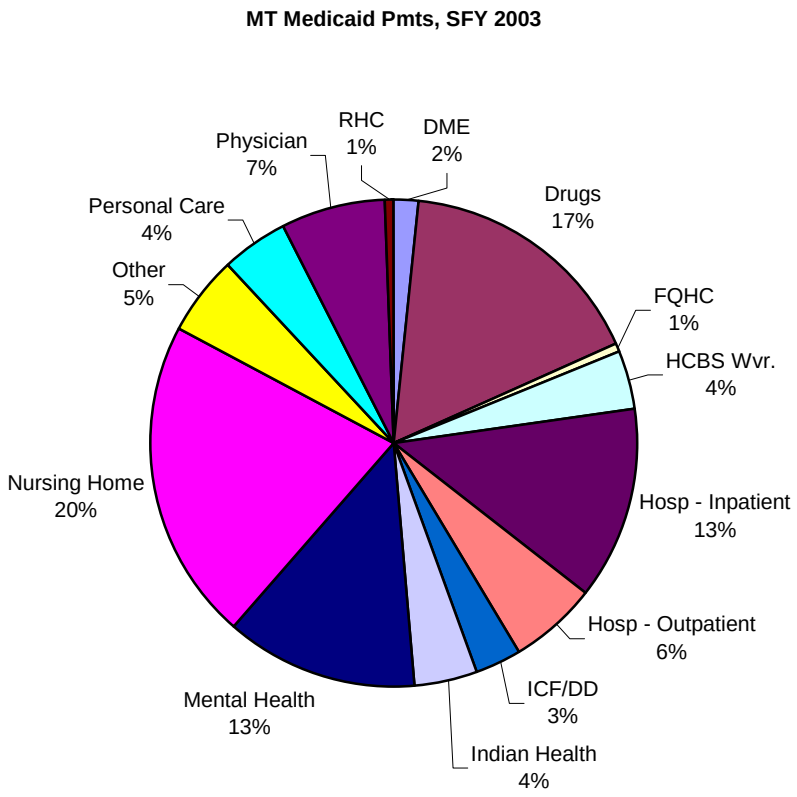
CHILDREN (AGE 20 OR LESS) excludes institutionalized:

23,235	TANF
28,514	FAMILY MEDICAID – SECTION 1931
2,989	SSI
45	DISABLED
204	DISABLED WAIVER
9,779	TRANSITIONAL MEDICAID
71	MEDICAID-EXTENDED CHILD/SPOUSAL SUPPORT
28,618	RIBICOFF, POVERTY CHILD, POVERTY CHILD SIX
1,468	POVERTY PREGNANT WOMAN COVERAGE

2. Count of Member Months
Montana Medicaid Eligibility Summary, SFY 2003

Adults		Member Months	% of total
	Family Medicaid	150,787	15%
	SSI Blind/Disabled	133,833	14%
	Medically Needy	70,737	7%
	SSI Aged and/or Blind Disabled	41,532	4%
	SLMB	16,534	2%
	QMB	16,116	2%
	All Adults	429,539	44%
Children			
	Family Medicaid	520,508	53%
	SSI	31,905	3%
	Medically needy	2,341	0%
	All Children	554,754	56%

MEDICAID SERVICES EXPENDITURE DATA:



State Fiscal Year for Montana is July 1st through June 30th

Total expenses shown here are approximately $519 million

F. BENEFITS UNDER THE 1115 WAIVER

Individuals who will be under the 1115 waiver will receive a limited package of Medicaid-reimbursed services. The medical services generally excluded are: audiology, dental and denturist, durable medical equipment, eyeglasses, optometry and ophthalmology for routine eye exams, personal care services and hearing aids. The Department will continue with allowances for Medicaid coverage for emergency dental situations, medical conditions of the eye and certain medical supplies such as diabetic supplies and oxygen. The Department will use the current list of standards and criteria in determining Medicaid coverage for the excluded services. There may be situations where an individual who is under the 1115 waiver requires a service in order to

obtain employment. Services essential for employment will be taken into consideration using the same list of standards and criteria to determine coverage.

G. DELIVERY NETWORK

The 1115 waiver is not a managed care waiver. Services provided are fee-for-service.

H. ACCESS

The 1115 waiver is not a managed care waiver.

I. QUALITY

The 1115 waiver is not a managed care waiver. The assurances that quality care is provided to all individuals eligible for Medicaid fall under the authority of the Quality Assurance Division where all Medicaid service providers are monitored, where complaints may be received from providers and from individuals eligible for Medicaid or from other concerned citizens, and where facilities are licensed and surveyed.

J. FINANCE

The attached spreadsheet depicts the costs to the federal government with the waiver and without the waiver.

Estimated Medicaid Savings Due to FAIM Waiver. FY 1998-2008

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Net Payment	$14,150,135	$13,631,987	$15,855,385	$23,397,273	$26,222,819	$27,334,542	$31,486,838	$36,269,896	$41,779,530	$48,126,115	$55,436,787
Member Months	111,274	99,572	92,936	110,541	121,668	125,251	128,952	132,762	136,684	140,723	144,881
NP PMPM	$127.16	$136.91	$170.61	$211.66	$215.53	$218.24	$244.18	$273.20	$305.66	$341.99	$382.64

% Change	FY 1998	1999	2000	2001	2002	2003	Avg
Net Payment		-3.7%	16.3%	47.6%	12.1%	4.2%	15.3%
Member Months		-10.5%	-6.7%	18.9%	10.1%	2.9%	3.0%
NP PMPM		7.7%	24.6%	24.1%	1.8%	1.3%	11.9%

FAIM Savings	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Net Payment	$2,659,234	$2,561,858	$2,979,702	$4,397,048	$4,928,053	$5,136,979	$5,917,320	$6,816,199	$7,851,624	$9,044,338	$10,418,232
Member Months	111,274	99,572	92,936	110,541	121,668	125,251	128,952	132,762	136,684	140,723	144,881
NP PMPM	$23.90	$25.73	$32.06	$39.78	$40.50	$41.01	$45.89	$51.34	$57.44	$64.27	$71.91
Projected growth in costs per member per month, 5-year average.						11.9%	11.9%	11.9%	11.9%	11.9%	11.9%
Projected growth in enrollment, 5-year average.						3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

* FY 1998 FAIM Savings from Budget worksheet for 95 session dated 2/2/95

Excludes services provided in Indian Health Service facilities.

SFY 2003 Medicaid payments are completed according to SFY 2002 completion rates.

Estimated Surge in FAIM Medicaid Costs due to pent-up demand for restricted services will occur the first year in which FAIM restrictions are lifted. If FAIM waiver expires 01/31/04, half of pent-up demand will be realized in SFY 2004 and half in SFY 2005.

	FY 2004	FY 2005
Percent of annual FAIM Savings	25.0%	25.0%
Percent of SFY affected	50.0%	50.0%
Cost of Pent-up demand	$739,665	$852,025
Cost PMPM of Pent-up demand	$11.47	$12.84

	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Total Projected Savings (or Cost if FAIM waiver expires):	$6,656,984	$7,668,224	$7,851,624	$9,044,338	$10,418,232
FMAP	75.91%	72.96%	72.96%	72.96%	72.96%
Federal Funding Only	$5,053,317	$5,594,736	$5,728,545	$6,598,749	$7,601,142

Per member-month cost increase explanations.

In SFY 2000 and 2001, the increases were driven by Pharmacy, inpatient hospital and outpatient hospital.
The increases in inpatient and outpatient hospital are due partially to the conversion of many facilities from prospective reimbursement to Critical Access Hospitals, which are reimbursed actual costs. Outpatient utilization has increased significantly with ER utilization.
The conversion of hospital from prospective reimbursement to cost based reimbursement, as well as increased ER utilization both continue, but substantial reductions to reimbursement, including elimination of additional payment policy for catastrophic cases, and an across the board reductions to reimbursement have slowed the growth of hospitals in SFY 2002 and 2003.
In each year since SFY 1998, and likely before, prescription drugs have been a driving factor in the increase in PMPM costs.
The pharmacy increase is due to a combination of new, more expensive drugs and increased utilization.

TOTAL FIVE YEAR PROJECTED SAVINGS: $41,639,402
Federal funding: $30,576,489*

***This represents the cost to the federal government if the 1115 waiver is not approved.**